the dayton company • annual report 1966

N U M E R A L S by Robert Indiana, in Dayton's Gallery 12.

financial highlights

	1966	1965	per cent increase
net sales and rentals	$223,210,637	$189,776,071	18
net income	8,104,984	6,951,301	17
earnings per common share . . .	2.38*	1.94*	23
shareholders' investment	59,718,573	55,551,010	8
working capital	33,254,810	28,869,460	15
common shares outstanding . . .	3,274,111	3,388,886*	

*Adjusted for recapitalization effected in January, 1967.


Out of Sight1

to the people we serve | 1966 saw The Dayton Company grow in sales volume and profits. We expanded our scope of operations by developing and implementing strategies in retailing where we believe new opportunities exist. Our forward advances were substantial, and the returns have exceeded projections—laying a strong base for future growth. ■ Net retail sales for the year were $217,961,635, an increase of $31,794,964 or 17 percent over the previous year. Net income of $8,104,984 compared with $6,951,301 in 1965, a 17 percent gain. As a result of this year's performance, earnings per common share rose 23 percent to $2.38. By reaching this new high, the Company achieved a growth of more than five and one-half times in earnings per common share in the past five years. ■ Dayton's department store operation again led the Company in sales and profits. Dayton's Brookdale, our sixth department store, opened in Brookdale Shopping Center in the northern Minneapolis suburb of Brooklyn Center during August and started out well above our planned volume. ■ Recognizing the thirst for newness created by a burgeoning youth market and an affluent, highly educated consumer group—those who are freer to spend more of their disposable income in the retail marketplace—15 new shops were opened in Dayton's stores during the year. Their initial success has demonstrated to us how creative retailing can increase demand and hence open up new sales opportunities. More shops are being planned to capitalize on this trend. ■ In October of 1966, the Company broadened its operations by moving out of our traditional Upper Midwest trade area and opening two Target stores in Denver, bringing the total number of Target stores to seven. We have been highly gratified by the enthusiastic customer response in the Colorado capital to Target's quality discount merchandising policy. Each of the four initial Target stores in Minnesota continued to show strong growth. The fifth store, in the Minneapolis suburb of Bloomington, contributed very satisfactory volume and profits in its first full year of operation. ■ Dayton Development Company completed the second stage of Brookdale Shopping Center with the opening of the 195,000-square-foot Dayton's Brookdale, an 87,000-square-foot expansion of the J. C. Penney Co. store, completion of 75,000 square feet of additional tenant rental space, and parking area for 2,000 more cars. Land was acquired for a third shopping center to be built in the St. Paul suburban community of Roseville. ■ The Company's newest strategy, B. Dalton, Bookseller, opened its first store in Southdale Shopping Center August 1. This followed a year-long study which revealed a distinct potential for the sale of quality books and educational materials, adult

games and records in attractive facilities in suburban communities. The idea has proved to be a successful one, and a format has been developed which allows us to seek new markets aggressively. At the close of the year, our second and third B. Dalton stores were being readied for opening in shopping centers in suburban St. Louis, Missouri. ■ The Dayton Company's extensive capital expenditure program of $10,000,000 in 1966 is being followed by another growth program totaling $15,000,000 in 1967. Dayton's Minneapolis downstairs store will be completely remodeled; the eighth and ninth Target stores will be constructed in West St. Paul and in the northern Minneapolis suburb of Fridley; Brookdale Shopping Center will be expanded with the addition of a fourth major department store, Donaldson's, a subsidiary of Allied Stores Corporation; six B. Dalton outlets are scheduled for completion in 1967. ■ Continuing the program of public service to help build the communities in which we operate, The Dayton Company again distributed five percent of its pre-tax profits for charitable and civic purposes. Included were a $50,000 gift for a study of Twin Cities metropolitan area taxation, an annual college scholarship program for children of employees with an initial distribution of $15,000, and a three-year grant of $100,000 to Pillsbury Citizens Service in Minneapolis to expand its search for new approaches and solutions in the area of juvenile problems. These are examples of how we are striving to improve the environments in which our customers and employees live and shop. The vehicle for carrying out this program is The Dayton Company Foundation, which dates back 50 years to when it was established by the Company's founder, George Draper Dayton. ■ We look for continued growth in 1967. Factors which should result in significant sales gains are the 494,000 square feet of new retail space completed in 1966 that will be working full-time in 1967, and increased volume from new Target and B. Dalton stores to be opened later in the year. ■ Just a year ago, we published and distributed an annual report for the first time. We chose then, and reaffirm with this report, our intention to operate in the public limelight. The experience of being challenged and tested through outside measurement of our activities is a stimulating one and we count on it to spur us to greater achievement and improved performance.

Donald C. Dayton

Donald C. Dayton
Chairman of the Board

Bruce B Dayton

Bruce B. Dayton
President

Dayton's Brookdale—newest store.


Dayton's
Kiddy Care Corner

at dayton's

shop and discover—In the forefront of the trend towards shops within a store, Dayton's opened 15 shops in 1966 to capitalize on the desire of a rapidly-growing number of shoppers to express their individuality through their purchases. ■ The shops' names alone indicate their appeal to these customers—Out of Sight I, Out of Sight II, Out of Sight VII, the Indeed Shop, Brick and Brass, Collectors' Corner, Chest of Drawers. They are designed for those who want to be different, those who want to shop and discover. ■ Trend setters like the "Out of Sights", two of them in former display windows of the Minneapolis store, are shops ever searching for what's new. They offer more ideas per square foot than the shopper's eye can count—

INDEED!

Everything in sight... Out of Sight II.

from a Danish streetcar strap to prismatic glasses to paper dresses to whatever is the latest trend—all in a happy jumble. ■ Because these new shops attracted customers and put them in an exploring mood, the result was to promote more traffic throughout the stores.

6th store—On August 1, Dayton's opened a 195,000-square-foot department store in Brookdale Shopping Center, bringing the total to three major full-line department stores in this center. Dayton's Brookdale is located in the heart of an expanding, youthful market, and its merchandising is aimed at satisfying the needs and desires of this group. ■ With the addition of the Brookdale store, the total store area of Dayton's department stores has grown to 2,406,308 square feet, an increase of 101 percent since 1954 when the first branch store was opened.

1,470,528 * * * gate * * * Expanding the "show biz" approach to retailing promotions, Dayton's doubled the attendance at its auditorium events in 1966, reaching a record high of nearly 1.5 million. ■ Live elephants eight floors up, 500,000 blossoms, folksingers Simon and Garfunkel—those were some of the spectacular sights and sounds that brought record crowds into the Minneapolis store and into the new 5,000-square-foot auditorium in the

Out of Sight I—
a shop in the window.

St. Paul store. Dayton's now programs 17,000 square feet of auditorium space throughout the year to build customer traffic by bringing excitement and entertainment to the shopping experience. ■ Biggest "hit" was the single, most ambitious promotion in Dayton's history: An authentic re-creation of Dickens' London Towne that required two years of effort to create and drew a half-million persons.

build-up downtown—Extensive new building programs have been undertaken in downtown Minneapolis and St. Paul the past three years. ■ In Minneapolis, Nicollet Avenue is being transformed into the eight-block-long Nicollet Mall with curving sidewalks decorated with terrazzo and patterned tile, lighted fountains, benches, trees, dozens of plantings of flowers, and a serpentine roadway for buses and taxis. Dayton's commissioned sculptor Alexander Calder to create a mobile stabile, which will be installed in the Mall plaza in front of Dayton's store. When the $3.3 million project is completed this year, additional buses will move faster and will bring five times more shoppers to the downtown area via Nicollet Avenue than in the past. Going up across Eighth Street from Dayton's is the 20-story Midwest

New concept in display.

Federal Savings and Loan Building; Northern States Power Company is in its new home; high rise apartments now tower above the Gateway Center. ■ In downtown St. Paul, more than $64 million in new buildings have been completed or are under construction—all within four blocks of Dayton's. Newest additions to the city's skyline are the 24-story Hilton Hotel and the 20-story Osborne Building housing Economics Laboratory, Inc.

doubleheader out west

The Grand Opening of Target's two newest stores in Denver on October 13 attracted overflow crowds. Twenty-five thousand Coloradans visited the stores in the first six hours. Target's immediate acceptance in its first venture outside Minnesota has been followed by a sales growth pattern similar to Target Stores in the Twin Cities and Duluth. ■ The stores, each 146,000 square feet in size, are located on major thoroughfares in western and southeastern suburban Denver. They offer a quarter-million items strongly centered on everyday shopping needs, displayed for mass impact. Customer loyalty is predicated on a policy of selling first

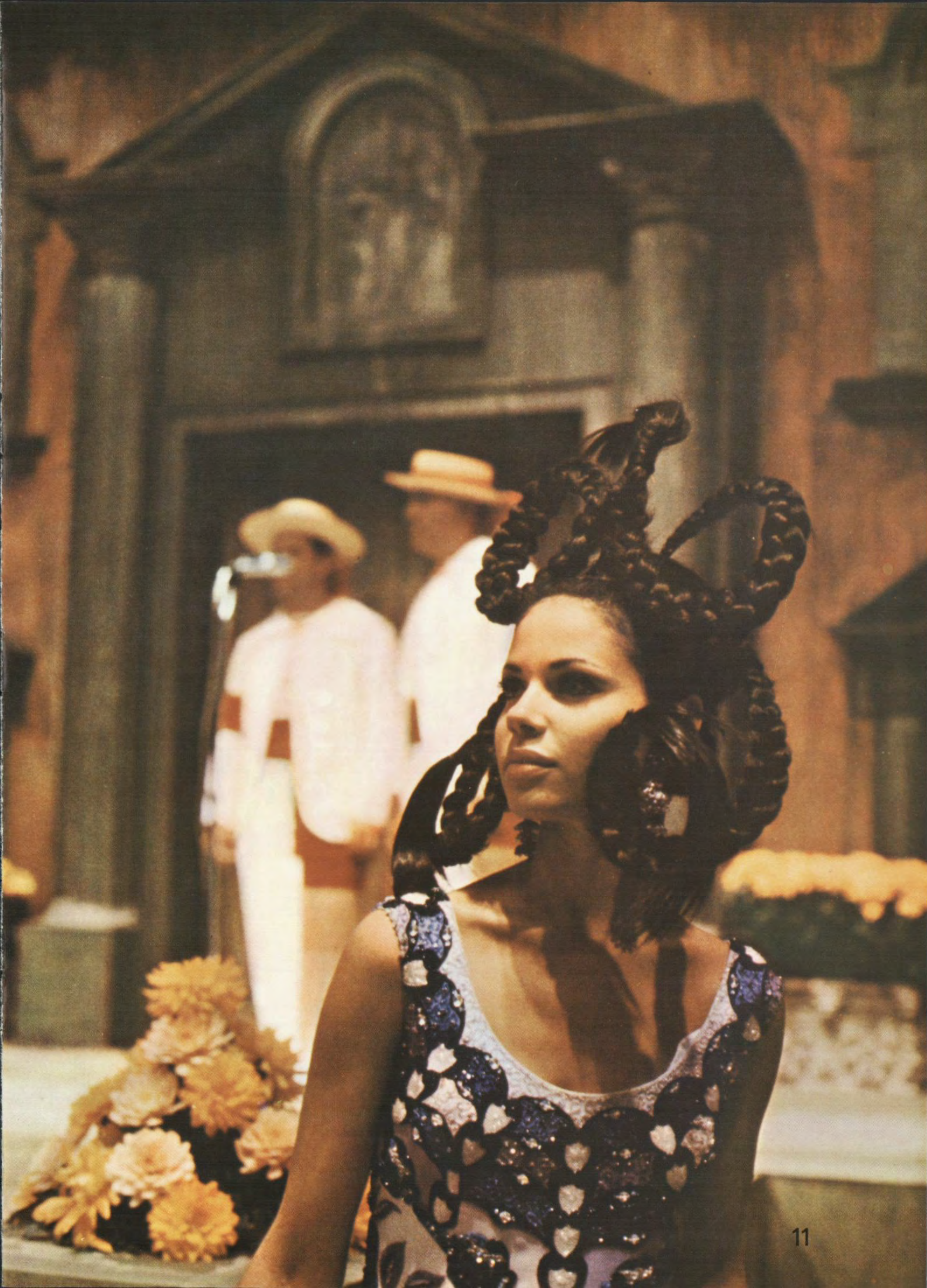
"Show Biz" for back-to-school "biz."

quality, nationally advertised goods on a low margin basis with full return privileges. Target statistics for the past two years show that its customers spend an average of more than $7.50 per visit, excluding groceries. This compares with an industry average of $5.05. ■ Today, Targets serve the Minneapolis suburbs of Bloomington, Crystal, and St. Louis Park; the St. Paul suburb of Roseville; Duluth and Denver. Next? Another double-header: Two more Target stores for the Twin Cities—numbers eight and nine scheduled to open Fall, 1967. ■ Total retail area of the seven Target stores now in operation is 889,000 square feet.

growing/developing

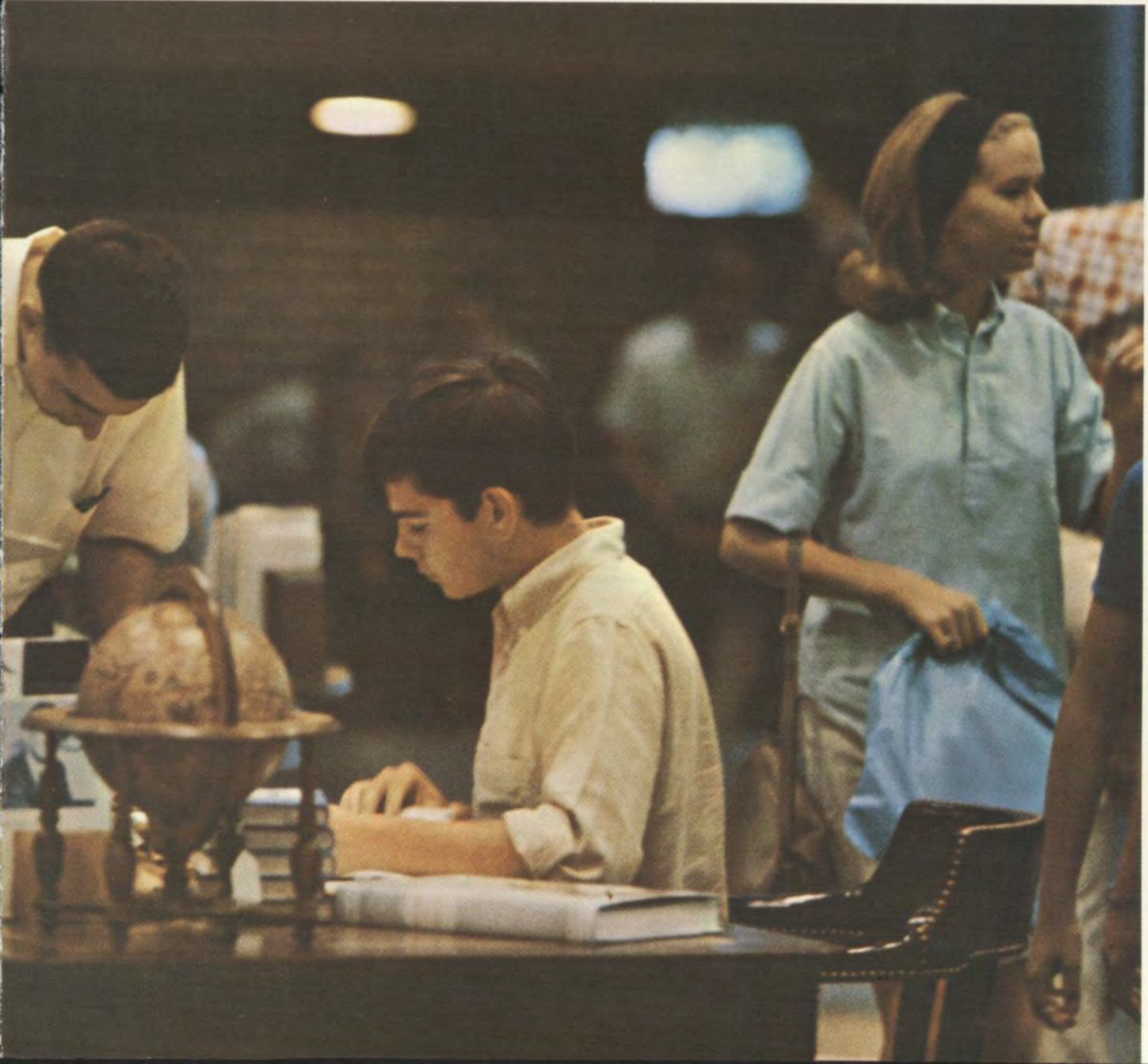
Dayton Development Company operations in 1966 spurred the growth of Southdale and Brookdale as major centers of economic activity for the communities they serve. This progress was accomplished by completion of Stage II of Brookdale Shopping Center, sale of commercial development land adjacent to the two centers for $1,771,355, and the opening of seven new retail and service facilities on the perimeter of the Centers. ■ Brookdale Shopping Center was increased to 857,000 square feet with the addition of a Dayton's store and 20 other new stores and services. Forty percent more parking area was added to provide space for a total of 4,900

Pucci fashions for The Friends Of The Minneapolis Institute of Art at premiere of Italian Village import fair, Dayton's auditorium.



B. Dalton, Bookseller—new look in book stores.

automobiles. Underway is Stage III, which will include the addition of a Donaldson's department store. When this stage is concluded, Brookdale will be the first closed mall shopping center in the United States with four major department stores. ■ Land sales will lead to construction of supermarkets, office buildings, apartments, a furniture store, auto supplies store, and a theater—enterprises attracted to the shopping centers as a result of their becoming retail, service and recreational focal points for residents of surrounding suburban areas. An example is Red Owl Stores, which is building supermarkets new in concept and design at both centers—octagonal structures to achieve a front door approach in all directions. ■ As the dominant shopping center developer in the Upper Midwest, Dayton Development Company continues to establish new retail areas in rapidly-growing suburban communities. During the year, 100 acres of land were acquired for a shopping center to be built in Roseville on the northern side of St. Paul. Stage I planning includes construction of 600,000 square feet of retail area. Ultimately, the shopping center will have a million square feet of retail space. A similar amount



of land previously was acquired for the proposed 12 Oaks Shopping Center, which will be built in a suburban area west of Minneapolis. ■ With the additions made in 1966, Dayton Development Company now leases 1,426,500 square feet of retail, service, and office space.

meet b. dalton, bookseller

The first B. Dalton, Bookseller, is a 7,200-square-foot store at Southdale Shopping Center. Why B. Dalton? Surveys conducted by the corporate planning staff showed that growing trends of affluence, education, sophistication and leisure in suburban areas projected strong potential for sales of books, records, tapes, phonographs, globes, greeting cards, maps and gifts. ■ The B. Dalton store concept emphasizes the open look of a contemporary college study hall where the customer can indulge his interests and pursue his needs in stimulating and pleasant surroundings in which 12,000 hard and soft cover books are displayed. There are desks for browsers and a children's section scaled to a child's world. ■ The second and third B. Dalton stores are situated in the Northwest Plaza and Crestwood Plaza shopping centers in St. Louis, Missouri.

150 Dickens characters, most of them animated, in four blocks of two-story clapboard buildings.

Christmas at the Cratchits in Dickens' London, 1850, from "The Christmas Carol."

Dickens' London Towne—seen by a half-million persons.


Target

professional management

Committed to the philosophy that organizational growth and development are the keys to future expansion, The Dayton Company is constantly striving to improve its techniques of professional management. Since the founding of the 4-Company Management School nine years ago, all of the top management team has attended. This past year, 20 members of that team completed the course. Also, all officers of the Company spent at least one or two weeks away from the business in 1966 attending management or professional seminars. The Company's own three-day middle management course was completed by 220 key employees. ■ Stimulated by this educational process, the Company's concept of professional management is continually evolving. Now establishing standards of performance for each executive position augments the process of setting goals and objectives and of annually reviewing individual performance in relation to these goals and objectives. These are basic components of a method designed to build an organizational team equal to the long range plans of the Company and to enable each individual to realize his full potential.

Outlook.

Overleaf: Target in the Rockies.

financial review

sales–Total revenues of The Dayton Company and all subsidiaries during the fiscal year ended January 28, 1967, were \$223,210,637, representing an increase of 18 percent over the previous year's income of \$189,776,071. The largest retail sales volume in the Company's history in 1966 accounted for \$217,961,635 of the total, exceeding by 17 percent the \$186,166,671 reported in 1965. ■ The two real estate subsidiaries, Dayton Development Company and Eighth Street Development Company—both of which set new highs—produced rentals from operating properties totaling \$5,692,388, a 14 percent increase over the preceding 12-months-period, and \$1,771,355 from sales of undeveloped land.

earnings–Net income from all operations of \$8,104,984 was 17 percent above last year. The retail divisions contributed \$7,852,060 of this amount and the real estate companies \$232,571, with the remainder coming from Dayton Credit Company. ■ Earnings per common share, adjusted for the recapitalization described in this report, were \$2.38 for 1966 as compared to \$1.94 for 1965, an improvement of 23 percent. ■ Dividends on common stock of The Dayton Company were increased to an annual rate of 30 cents, beginning in the third quarter of 1966. ■ The 1966 income tax accrual reflects the capital gain treatment accorded the land sales of Dayton Development Company, and an investment credit of \$243,728.

capital structure—Common shareholders' equity increased to \$54,719,273 from \$40,625,910. This was due primarily to a gain of \$4,980,766 in retained earnings, and additional paid-in capital of \$7,421,236 resulting from the exchange of preferred stock into common stock. ■ The capital structure of the Company was simplified in 1966. All of the 4½% Second Preferred Stock and 5% Third Preferred Stock of The Dayton Company, and all

Preferred Stock of Dayton Development Company, were eliminated, either by exchange into common stock of The Dayton Company or by cash redemption. Preferred stock in the amount of $7,644,600 was exchanged for common stock and $3,976,700 of preferred stock was redeemed for cash. ■ A $4,844,902 increase in the long term debt of the retail companies reflects the interim financing for two Target stores opened in Denver in October of 1966. Permanent financing for these two stores has been arranged on a private placement basis. The $1,587,997 increase in long term debt of the real estate companies results from the completion of Stage II of Brookdale Shopping Center.

capital expenditures and working capital—Capital expenditures for all operations totaled $10,032,404 in 1966. Of this amount, $7,070,634 was for retail development, including Dayton's Brookdale store and the two Denver Target stores. The real estate companies expended $2,961,770 for the expansion of Brookdale Shopping Center and the continuing development of the areas surrounding Brookdale and Southdale shopping centers, and for purchases of land. ■ For 1967, more than $15,000,000 is programmed for capital improvements with $10,000,000 of this sum allocated for retail expansion and $5,000,000 for real estate operations. ■ Depreciation charges in 1966 totaled $4,030,635, consisting of $2,812,932 for the retail companies and $1,217,703 for the real estate companies. This compares with a total of $3,705,324 in 1965. ■ The net working capital increased $4,385,350 to $33,254,810.

dayton credit company-Completing its first full year of operations, Dayton Credit Company owned total receivables of $6,676,055 at year end. Throughout most of the year, the amount of receivables owned was substantially less than the volume owned at the close of the fiscal period. Net income before taxes and interest was 1.6 times interest charges.

The Dayton Company and Retail Subsidiaries

statement of income

	Year Ended	
	January 28, 1967	January 29, 1966
Net retail sales, including sales of leased departments	$217,961,635	$186,166,671
Costs and expenses:		
Cost of sales and expenses exclusive of items listed below	$191,007,108	$160,514,978
Maintenance and repairs	823,379	763,572
Depreciation and amortization	2,812,932	2,723,071
Rentals (including 1967—$1,743,318; 1966—$1,295,974 paid to unconsolidated real estate subsidiaries)	3,023,004	2,088,720
Interest	1,267,986	1,154,153
Taxes other than taxes on income	3,811,615	3,745,154
Contribution to retirement plan	846,551	943,042
	$203,592,575	$171,932,690
OPERATING INCOME	$ 14,369,060	$ 14,233,981
Taxes on income—Note A	6,517,000	7,105,000
NET INCOME FROM RETAIL STORES	$ 7,852,060	$ 7,128,981
Equity in net income (loss) of unconsolidated subsidiaries-Notes A and H	252,924	(177,680)
NET INCOME	$ 8,104,984	$ 6,951,301
EARNINGS PER COMMON SHARE—Note G	$2.23	$1.91
PRO FORMA EARNINGS PER COMMON SHARE—Note G	$2.38	$1.94

See notes to financial statements.

The Dayton Company and Retail Subsidiaries

statement of financial position

ASSETS	January 28, 1967	January 29, 1966
CURRENT ASSETS		
Cash	$ 4,838,628	$ 4,004,389
Accounts receivable, less allowance (1967—$388,022; 1966—$386,598)	23,675,791	24,765,744
Merchandise inventories—Note B	31,317,693	27,770,196
Supplies and prepaid expenses	678,079	386,353
TOTAL CURRENT ASSETS	$ 60,510,191	$ 56,926,682
INVESTMENTS AND OTHER ASSETS		
Investment in subsidiaries—Note A	$ 12,659,861	$ 9,898,845
Marketable securities—at cost (market prices 1967—$3,017,416; 1966—$3,667,828)	661,204	1,379,171
Other accounts	987,990	1,111,883
	$ 14,309,055	$ 12,389,899
PROPERTY AND EQUIPMENT—on the basis of cost—Notes C and D	34,336,826	30,091,124
	$109,156,072	$ 99,407,705

LIABILITIES	January 28, 1967	January 29, 1966
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 19,299,624	$ 17,593,850
Income taxes, including deferred taxes on income reported on the installment basis (1967—$3,153,000; 1966—$2,868,000)	6,158,754	7,405,693
Long-term debt due within one year	880,098	875,282
TOTAL CURRENT LIABILITIES	$ 26,338,476	$ 25,874,825
LONG-TERM DEBT—due after one year—Note D	20,569,862	15,724,960
DEFERRED CREDITS, including deferred income taxes (1967—$2,039,500; 1966—$1,714,393)—Note A	2,529,161	2,256,910
SHAREHOLDERS' INVESTMENT—Notes A, D and E		
Preferred Stock	$ 4,999,300	$ 14,925,100
Common Stock	3,274,111	1,582,750
Additional paid-in capital	7,421,236	—
Retained earnings	44,023,926	39,043,160
	$ 59,718,573	$ 55,551,010
	$109,156,072	$ 99,407,705

See notes to financial statements.

The Dayton Company and Retail Subsidiaries

statement of retained earnings

	Year Ended	
	January 28, 1967	January 29, 1966
Balance at beginning of year—Note A	$ 39,043,160	$ 33,282,368
Add net income for the year	8,104,984	6,951,301
	$ 47,148,144	$ 40,233,669
Deductions:		
Cash dividends on Preferred Stock	$ 814,796	$ 894,440
Cash dividends on Common Stock (1967—$.175 a share; 1966—$.0125 a share)	536,585	39,569
Stock split effected in the form of a stock dividend of one share of Common Stock for each share outstanding	1,535,500	—
Excess of cost over par value of Common Stock acquired for treasury	237,337	256,500
	$ 3,124,218	$ 1,190,509
Balance at end of year	$ 44,023,926	$ 39,043,160

See notes to financial statements.

The Dayton Company and Retail Subsidiaries

statement of source and application of funds

	Year Ended	
	January 28, 1967	January 29, 1966
Source of funds:		
Net income for the year	$ 8,104,984	$ 6,951,301
Depreciation and amortization	2,812,932	2,723,071
Increase (decrease) in long-term debt	4,844,902	(907,574)
Other	1,257,702	525,228
	$ 17,020,520	$ 9,292,026
Application of funds:		
Dividends	$ 1,351,381	$ 934,009
Net additions to property and equipment	7,058,634	1,734,228
Increase in investment in unconsolidated subsidiaries	1,842,416	673,684
Redemption of Common and Preferred Stock	3,504,640	501,500
Other	143,591	642,608
Increase in working capital	3,119,858	4,805,997
	$ 17,020,520	$ 9,292,026

See notes to financial statements.

notes to financial statements

January 28, 1967

Note A—PRINCIPLES OF CONSOLIDATION AND OTHER ACCOUNTING POLICIES

The financial statements of The Dayton Company and Retail Subsidiaries appearing on pages 21 to 24 include the accounts of The Dayton Company and retail subsidiaries (all wholly-owned) after elimination of material intercompany accounts and transactions. The accounts of wholly-owned real estate and finance company subsidiaries are not consolidated and the investment therein, previously carried at cost, is carried at equity. This change in accounting has been given retroactive effect in the financial statements and has decreased net income for the year ended January 29, 1966 by $177,680 and has increased retained earnings at January 30, 1965 by $37,665.

The financial statements of The Dayton Company and All Subsidiaries appearing on pages 28 to 30 include the accounts of the Company and all subsidiaries.

Deferred income taxes included in the tax provision arise from the use of accelerated depreciation for tax purposes. The investment credit has been used to reduce income taxes for the year.

The following table reflects certain data as to deferred income taxes, investment credit and expense reclassifications:

	The Dayton Company and All Subsidiaries		The Dayton Company and Retail Subsidiaries	
	1967	1966	1967	1966
Deferred income taxes	$ 479,222	$ 365,105	$ 325,107	$ 314,481
Investment credit	243,728	138,866	224,021	130,784
Cost of sales, buying and occupancy expense	167,093,428	141,388,452	165,010,926	139,686,954
Selling, general and administrative expenses	38,821,472	32,100,758	37,313,663	31,256,511

Note B—MERCHANDISE INVENTORIES

Substantially all merchandise inventories on hand and in transit are priced at cost under the retail method on the last-in, first-out basis. Inventories are stated at 1967—$1,166,372 and 1966—$664,219 less than the amount which would have been determined under the retail inventory method without regard to last-in, first-out principles.

Note C—PROPERTY AND EQUIPMENT

	The Dayton Company and All Subsidiaries		The Dayton Company and Retail Subsidiaries		Real Estate Subsidiaries	
	1967	1966	1967	1966	1967	1966
Land and land improvements	$ 21,682,414	$20,598,083	$ 7,408,323	$ 6,502,368	$14,274,091	$14,095,715
Buildings	61,969,569	57,461,588	31,341,738	28,794,001	30,627,831	28,667,587
Equipment	19,566,128	15,671,520	19,000,042	15,427,964	566,086	243,556
	$103,218,111	$93,731,191	$57,750,103	$50,724,333	$45,468,008	$43,006,858
Allowances for depreciation	31,169,076	27,196,743	23,413,277	20,633,209	7,755,799	6,563,534
	$ 72,049,035	$66,534,448	$34,336,826	$30,091,124	$37,712,209	$36,443,324

notes to financial statements

Note D—LONG-TERM DEBT

	The Dayton Company and All Subsidiaries		The Dayton Company and Retail Subsidiaries (1)		Real Estate Subsidiaries (2)	
	1967	1966	1967	1966	1967	1966
5⅝% sinking fund notes	$12,800,000	$13,600,000	$12,800,000	$13,600,000	$ —	$ —
Mortgage notes	24,767,398	19,477,456	2,044,862	2,124,960	22,722,536	17,352,496
Interim financing	5,725,000	3,200,000	5,725,000	—	—	3,200,000
Contracts for purchase of land	2,401,996	2,984,039	—	—	2,401,996	2,984,039
	$45,694,394	$39,261,495	$20,569,862	$15,724,960	$25,124,532	$23,536,535

(1) The 5⅝% sinking fund notes are payable by The Dayton Company $800,000 annually on each January 31st through 1981 and the balance January 31, 1982. The sinking fund note agreements contain requirements and limitations relating to sale of receivables, working capital, dividends, and other restricted payments.

The mortgage notes of a retail subsidiary bear interest at 6¼% and are payable $52,764, including interest, quarterly. The net carrying amount of land, land improvements, buildings, fixtures and equipment pledged as collateral to the mortgage notes aggregates $3,611,368. Interim financing for two discount stores constructed in 1966 will be replaced by a first mortgage note in the approximate amount of $2,200,000 at 7¾%, payable in quarterly installments, including interest, of $62,000 for the first five years and $50,000 for the remaining twenty years. Interim financing for land for these stores will be replaced in 1967 under terms of sale and leaseback arrangements which will require annual rentals of approximately $225,000.

(2) The contracts and mortgages of the real estate subsidiaries bear interest at rates from 4% to 6½% and are payable over periods ranging from 3 to 25 years from inception. Aggregate annual payments through January 1972, including interest where it is a part of the required monthly payment, are as follows: 1968—$2,749,158, 1969—$2,732,207, 1970—$2,421,318, 1971—$2,347,764, 1972—$2,347,764.

The net carrying amount of land, buildings and equipment pledged as collateral to the mortgage notes aggregates $29,374,461.

Note E—SHAREHOLDERS' INVESTMENT

	1967	1966
Preferred Stock:		
First Preferred—Series A, 6% cumulative, par value $100 a share, redeemable at par and unpaid dividends:		
Authorized 45,000 shares; issued 41,830 shares less those in treasury 1967—14,696 shares; 1966—5,949 shares	$ 2,713,400	$ 3,588,100
First Preferred—Series B, 6% cumulative, par value $100 a share, redeemable at $113 a share and unpaid dividends to February 5, 1967 and at reduced amounts thereafter:		
Authorized 26,000 shares; issued 25,971 shares less those in treasury 1967—3,112 shares; 1966—2,188 shares	2,285,900	2,378,300
Second and Third Preferred retired in recapitalization during year	—	8,958,700
	$ 4,999,300	$14,925,100

Note E—SHAREHOLDERS' INVESTMENT (Cont'd)

Common Stock, par value $1 a share: Authorized 4,000,000 shares; issued shares 1967—3,657,364; 1966—1,717,000 less those in treasury 1967—383,253; 1966—134,250	3,274,111	1,582,750
Additional paid-in capital arising from recapitalization in connection with retirement of Second and Third Preferred Stock and issuance of 223,364 shares of Common Stock	7,421,236	—
Retained earnings	44,023,926	39,043,160
SHAREHOLDERS' INVESTMENT	$59,718,573	$55,551,010

The Company issued 1,535,500 shares of Common Stock in a stock split effected in the form of a stock dividend. In connection with the recapitalization which eliminated the Second and Third Preferred Stocks, the Company eliminated the minority interest in a real estate subsidiary.

Note F—COMMITMENTS

Long-term leases at January 28, 1967 require minimum annual rentals, including real estate taxes and expenses where applicable, of approximately $2,830,000 for the Company and retail subsidiaries and $3,190,000 for the Company and all subsidiaries (including in both instances $1,542,000 payable to real estate subsidiaries).

Note G—EARNINGS PER COMMON SHARE

Earnings per share are based upon Common Shares outstanding at year-end after giving retroactive effect in 1966 to stock splits and stock dividends.

Pro forma earnings per share are based upon Common Shares outstanding at year-end after giving retroactive effect to a recapitalization in 1967 which eliminated the Second and Third Preferred Stock and the Preferred Stock of a real estate subsidiary held by minority interests, and to stock splits and stock dividends.

Note H—REAL ESTATE SALES

Gain from the sale of real estate realized by the real estate subsidiaries amounted to 1967—$1,296,174 and 1966—$424,711.

The Dayton Company and All Subsidiaries

statement of income

	Year Ended	
	January 28, 1967	January 29, 1966
Net retail sales, including sales of leased departments and rentals—Note H . . .	$223,210,637	$189,776,071
Costs and expenses:		
Cost of sales and expenses exclusive of items listed below	$193,222,321	$162,247,535
Maintenance and repairs	1,000,358	874,447
Depreciation and amortization	4,030,635	3,705,324
Rentals	1,476,678	942,738
Interest	2,511,153	2,183,767
Taxes other than taxes on income	5,322,776	4,765,450
Contribution to retirement plan	862,132	953,716
	$208,426,053	$175,672,977
OPERATING INCOME	$ 14,784,584	$ 14,103,094
Taxes on income—Note A	6,679,600	7,151,793
NET INCOME	$ 8,104,984	$ 6,951,301
EARNINGS PER COMMON SHARE—Note G	$2.23	$1.91
PRO FORMA EARNINGS PER COMMON SHARE—Note G	$2.38	$1.94

See notes to financial statements, and statement of retained earnings on page 24.

The Dayton Company and All Subsidiaries

statement of financial position

ASSETS	January 28, 1967	January 29, 1966
CURRENT ASSETS		
Cash	$ 5,037,900	$ 4,329,751
Accounts receivable, less allowance (1967—$494,022; 1966—$431,898)	30,167,299	27,627,768
Merchandise inventories—Note B	31,317,693	27,770,196
Supplies and prepaid expenses	714,228	458,194
TOTAL CURRENT ASSETS	$ 67,237,120	$ 60,185,909
INVESTMENTS AND OTHER ASSETS		
Marketable securities—at cost (market prices 1967—$3,017,416; 1966—$3,667,828)	$ 661,204	$ 1,379,171
Tenants' allowances, less amortization (1967—$1,539,119; 1966—$1,351,282)	1,111,104	1,049,759
Other accounts	1,344,675	1,206,846
	$ 3,116,983	$ 3,635,776
PROPERTY AND EQUIPMENT—on the basis of cost—Notes C and D	72,049,035	66,534,448
	$142,403,138	$130,356,133

LIABILITIES		
CURRENT LIABILITIES		
Notes payable to bank—unsecured	$ 5,900,000	$ 2,225,000
Accounts payable and accrued liabilities	19,530,648	19,222,934
Income taxes, including deferred taxes on income reported on the installment basis (1967—$3,153,000; 1966—$2,868,000)	6,167,254	7,405,692
Long-term debt due within one year	2,384,408	2,462,823
TOTAL CURRENT LIABILITIES	$ 33,982,310	$ 31,316,449
LONG-TERM DEBT—due after one year—Note D	45,694,394	39,261,495
DEFERRED CREDITS, including deferred income taxes (1967—$2,518,200; 1966—$1,989,161)—Note A	3,007,861	2,531,679
MINORITY INTEREST	—	1,695,500
SHAREHOLDERS' INVESTMENT—Notes A, D and E		
Preferred Stock	$ 4,999,300	$ 14,925,100
Common Stock	3,274,111	1,582,750
Additional paid-in capital	7,421,236	—
Retained earnings	44,023,926	39,043,160
	$ 59,718,573	$ 55,551,010
	$142,403,138	$130,356,133

See notes to financial statements.

The Dayton Company and All Subsidiaries

statement of source and application of funds

	Year Ended	
	January 28, 1967	January 29, 1966
Source of funds:		
Net income for the year	$ 8,104,984	$ 6,951,301
Depreciation and amortization	4,030,635	3,705,324
Increase in long-term debt	6,432,899	3,479,345
Other	1,348,608	1,012,726
	$ 19,917,126	$ 15,148,696
Application of funds:		
Dividends	$ 1,351,381	$ 934,009
Net additions to property and equipment	9,545,222	8,770,789
Redemption of Common and Preferred Stock	4,281,540	501,500
Other	353,633	683,726
Increase in working capital	4,385,350	4,258,672
	$ 19,917,126	$ 15,148,696

See notes to financial statements.

accountants' report

To the Board of Directors
The Dayton Company
Minneapolis, Minnesota

We have examined the statement of financial position of The Dayton Company and Retail Subsidiaries and of The Dayton Company and All Subsidiaries as of January 28, 1967 and the respective related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the preceding year.

In our opinion, the accompanying afore-mentioned financial statements present fairly the financial position of The Dayton Company and Retail Subsidiaries and The Dayton Company and All Subsidiaries at January 28, 1967 and January 29, 1966 and the respective results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied. We have similarly examined the accompanying respective statements of source and application of funds and, in our opinion, they fairly present the information therein set forth.

Minneapolis, Minnesota
March 17, 1967

Ernst & Ernst

The Dayton Company and All Subsidiaries

five year comparisons

	Year Ended Approximately January 31st				
	1967	1966	1965	1964	1963
RETAIL OPERATIONS (000's)					
Net retail sales	$217,962	$186,167	$162,774	$144,501	$129,052
Retail income before taxes	14,369	14,234	9,617	6,601	4,402
Percent of sales	6.6%	7.6%	5.9%	4.6%	3.4%
Retail net income	7,852	7,129	5,435	3,401	1,731
Percent of sales	3.6%	3.8%	3.3%	2.4%	1.3%
TOTAL OPERATIONS (000's)					
Net sales and rentals	$223,211	$189,776	$165,765	$147,254	$131,732
Net income	8,105	6,951	5,517	3,433	1,930
Dividends paid					
Preferred Stock	815	894	908	927	933
Common Stock	537	40	—	—	—
Earnings reinvested	6,753	6,017	4,609	2,506	997
Capital expenditures	10,032	9,990	5,417	9,818	10,342
Depreciation and amortization	4,031	3,705	3,486	2,971	2,335
PER SHARE OF COMMON STOCK					
Net income (*)	2.38	1.94	1.48	.87	.43
Dividends paid	.175	.0125	—	—	—
Book value	16.71	12.83	10.74	9.31	8.54
YEAR END FINANCIAL POSITION (000's)					
Cash	5,038	4,330	3,821	2,739	2,261
Accounts receivable, net of allowances	30,167	27,628	25,230	23,368	21,790
Merchandise inventories, LIFO basis	31,318	27,770	24,523	21,887	20,687
Working capital	33,255	28,870	24,611	24,065	26,912
Property and equipment, net of depreciation					
Retail companies	34,337	30,091	31,080	30,557	25,385
Real estate companies	37,712	36,443	30,389	29,322	28,121
Total	72,049	66,534	61,469	59,879	53,506
Long-term debt					
Retail companies	20,570	15,725	16,632	17,540	18,476
Real estate companies	25,124	23,536	19,150	19,283	17,778
Total	45,694	39,261	35,782	36,823	36,254
Shareholders' investment					
Preferred Stock	4,999	14,925	15,128	15,488	15,571
Common shareholders' equity	54,719	40,626	34,907	30,425	27,919
Total shareholders' investment	59,718	55,551	50,035	45,913	43,490
Return on beginning shareholders' investment	14.6%	13.9%	12.0%	7.9%	4.5%
Common shares outstanding, adjusted for stock splits and stock dividends	3,274	3,165	3,249	3,269	3,269
GENERAL					
Number of stores	14	10	9	9	9
Total square feet of space (000's)					
Space used in retail operations	3,337	2,805	2,648	2,569	2,340
Space leased to others	1,089	884	778	757	724

(*) Pro forma for recapitalization

directors

ROBERT G. BERTHOLF
BRUCE B. DAYTON
DONALD C. DAYTON
DOUGLAS J. DAYTON
GEORGE D. DAYTON II
KENNETH N. DAYTON
WALLACE C. DAYTON
HADLAI A. HULL
STUART W. WELLS, JR.

officers

DONALD C. DAYTON, *Chairman of the Board*
BRUCE B. DAYTON, *President*
GEORGE D. DAYTON II, *Executive Vice President*
ROBERT J. CRABB, *Vice President*
HADLAI A. HULL, *Vice President and Treasurer*
WAYNE E. THOMPSON, *Vice President*
J. R. A. BOLINE, *Assistant Secretary and Assistant Treasurer*
JOHN E. SCHWARZ, *Assistant Treasurer*

dayton's

KENNETH N. DAYTON
Executive Vice President and General Manager
STUART W. WELLS, JR.
Vice President, Merchandise and Publicity
E. A. ANDERSON
Vice President and General Manager, Southdale
WILLIAM ANDRES
Vice President and General Operating Manager
ROBERT G. BERTHOLF
Vice President, Branch Stores
JOHN A. CURRY
Vice President and Controller
SAMUEL B. DRUY
Vice President and General Merchandise Manager
CARL R. ERICKSON
Vice President and General Merchandise Manager

target stores, inc.

DOUGLAS J. DAYTON
President
JOHN GEISSE
Vice President and General Merchandise Manager
KERMIT HALDEN
Vice President and Personnel Director
RICHARD KLEIN
Vice President and Controller and Assistant Secretary

dayton development company

WALLACE C. DAYTON, *President*

eighth street development company

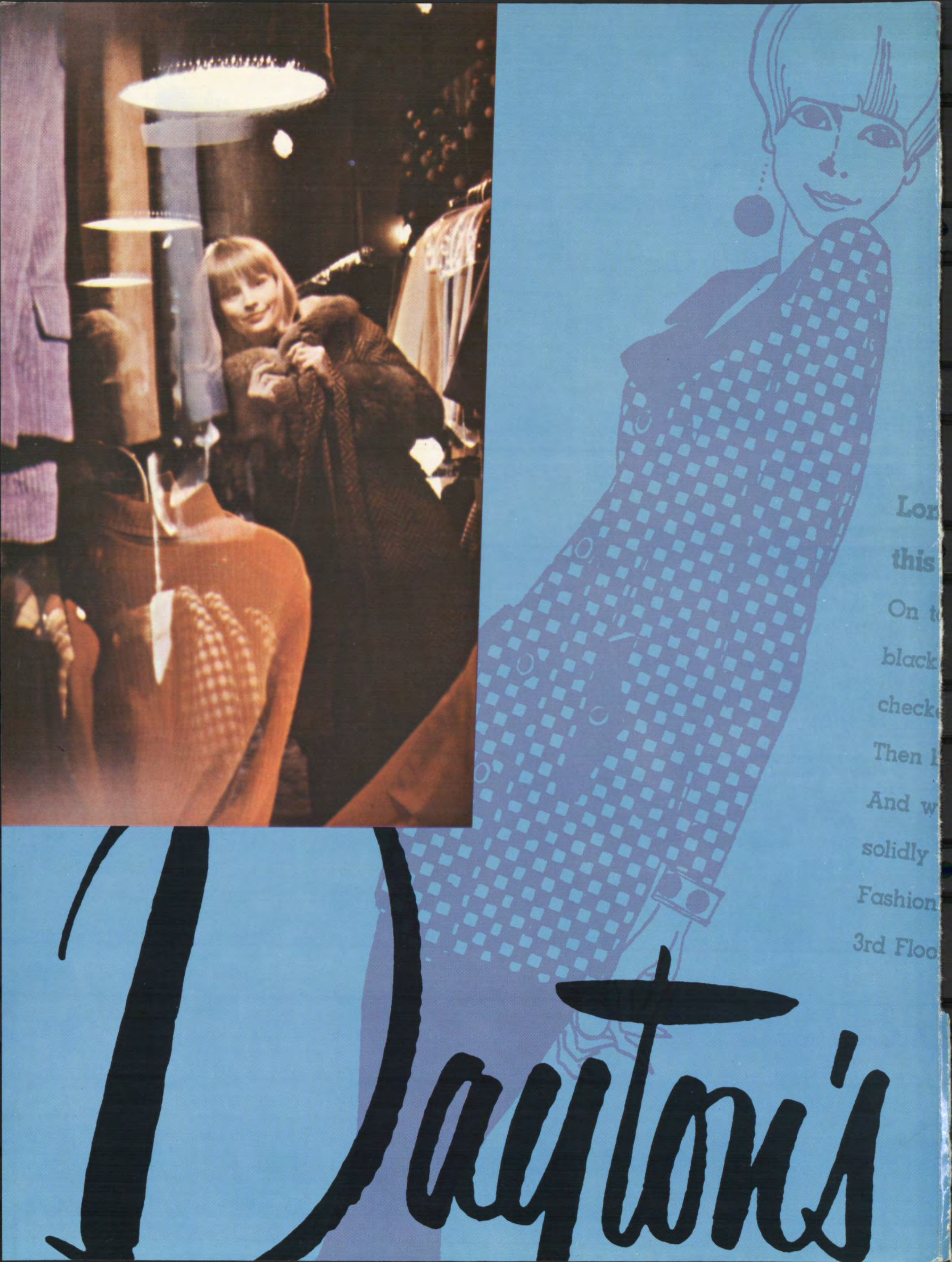
WILLIAM CREAR, JR., *President*

b. dalton, bookseller

RICHARD HAGEN, *President*

dayton credit company

HADLAI A. HULL, *President*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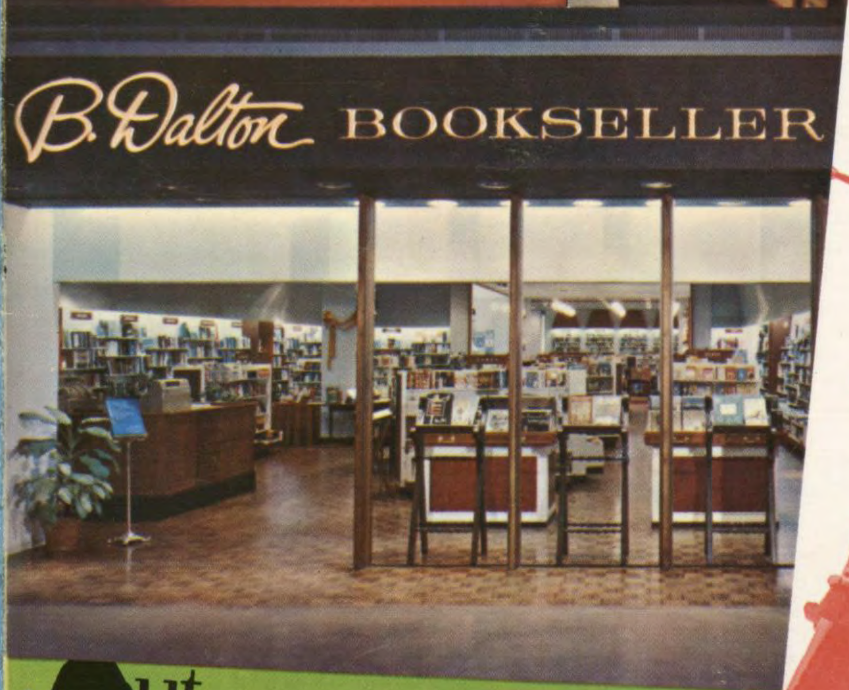

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